

UDR, Inc.
Form 10-Q
October 26, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number

1-10524 (UDR, Inc.)

333-156002-01 (United Dominion Realty, L.P.)

UDR, Inc.

United Dominion Realty, L.P.

(Exact name of registrant as specified in its charter)

Maryland (UDR, Inc.) 54-0857512

Delaware (United Dominion Realty, L.P.) 54-1776887

(State or other jurisdiction of incorporation of organization) (I.R.S. Employer Identification No.)

1745 Shea Center Drive, Suite 200, Highlands Ranch, Colorado 80129

(Address of principal executive offices) (zip code)

(720) 283-6120

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

UDR, Inc. Yes No

United Dominion Realty, L.P. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

UDR, Inc. Yes No

United Dominion Realty, L.P. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

UDR, Inc.:

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company

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(Do not check if a smaller reporting company)

United Dominion Realty,
L.P.:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

UDR, Inc. Yes No

United Dominion Realty, L.P. Yes No

The number of shares of UDR, Inc.'s common stock, \$0.01 par value, outstanding as of October 24, 2016 was 267,248,398.

Table of Contents

UDR, INC.

UNITED DOMINION REALTY, L.P.

INDEX

PAGE

PART I — FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

UDR, INC.:

Consolidated Balance Sheets as of September 30, 2016 (unaudited) and December 31, 2015 (audited) 4

Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015 (unaudited) 5

Consolidated Statements of Comprehensive Income/(Loss) for the three and nine months ended September 30, 2016 and 2015 (unaudited) 6

Consolidated Statement of Changes in Equity for the nine months ended September 30, 2016 (unaudited) 7

Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 (unaudited) 8

Notes to Consolidated Financial Statements (unaudited) 9

UNITED DOMINION REALTY, L.P.:

Consolidated Balance Sheets as of September 30, 2016 (unaudited) and December 31, 2015 (audited) 36

Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015 (unaudited) 37

Consolidated Statements of Comprehensive Income/(Loss) for the three and nine months ended September 30, 2016 and 2015 (unaudited) 38

Consolidated Statement of Changes in Capital for the nine months ended September 30, 2016 (unaudited) 39

Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015 (unaudited) 40

Notes to Consolidated Financial Statements (unaudited) 41

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations 60

Item 3. Quantitative and Qualitative Disclosures About Market Risk 85

Item 4. Controls and Procedures 85

PART II — OTHER INFORMATION

Item 1. Legal Proceedings 86

| | |
|--|------------|
| <u>Item 1A. Risk Factors</u> | <u>86</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>100</u> |
| <u>Item 3. Defaults Upon Senior Securities</u> | <u>100</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>100</u> |
| <u>Item 5. Other Information</u> | <u>100</u> |
| <u>Item 6. Exhibits</u> | <u>100</u> |
| <u>Signatures</u> | <u>101</u> |
| Exhibit 4.1 | |
| Exhibit 12.1 | |
| Exhibit 12.2 | |
| Exhibit 31.1 | |
| Exhibit 31.2 | |
| Exhibit 31.3 | |
| Exhibit 31.4 | |
| Exhibit 32.1 | |
| Exhibit 32.2 | |
| Exhibit 32.3 | |
| Exhibit 32.4 | |

Table of Contents

EXPLANATORY NOTE

This Report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2016 of UDR, Inc., a Maryland corporation, and United Dominion Realty, L.P., a Delaware limited partnership, of which UDR, Inc. is the parent company and sole general partner. Unless the context otherwise requires, all references in this Report to “we,” “us,” “our,” the “Company,” “UDR” or “UDR, Inc.” refer collectively to UDR, Inc., together with its consolidated subsidiaries and joint ventures, including United Dominion Realty, L.P. and UDR Lighthouse DownREIT L.P. (the “DownREIT Partnership”), a Delaware limited partnership of which UDR is the sole general partner. The DownREIT Partnership was formed in conjunction with certain acquisitions from Home Properties, L.P., a New York limited partnership, by UDR in October 2015. Unless the context otherwise requires, the references in this Report to the “Operating Partnership” or the “OP” refer to United Dominion Realty, L.P. together with its consolidated subsidiaries. “Common stock” refers to the common stock of UDR and “stockholders” means the holders of shares of UDR’s common stock and preferred stock. The limited partnership interests of the Operating Partnership and the DownREIT Partnership are referred to as the “OP Units” and “DownREIT Units,” and the holders of the OP Units and DownREIT Units are referred to as “unitholders.” This combined Form 10-Q is being filed separately by UDR and the Operating Partnership. There are a number of differences between our Company and our Operating Partnership, which are reflected in our disclosure in this Report. UDR is a real estate investment trust (a “REIT”), whose most significant asset is its ownership interest in the Operating Partnership. UDR also conducts business through other subsidiaries, including its taxable REIT subsidiaries (“TRS”). UDR acts as the sole general partner of the Operating Partnership, holds interests in subsidiaries and joint ventures, owns and operates properties, issues securities from time to time and guarantees debt of certain of our subsidiaries. The Operating Partnership conducts the operations of a substantial portion of the business and is structured as a partnership with no publicly traded equity securities. The Operating Partnership has guaranteed certain outstanding debt of UDR.

As of September 30, 2016, UDR owned 110,883 units (100%) of the general partnership interests of the Operating Partnership and 174,116,596 units (approximately 95.1%) of the limited partnership interests of the Operating Partnership. UDR conducts a substantial amount of its business and holds a substantial amount of its assets through the Operating Partnership, and, by virtue of its ownership of the OP Units and being the Operating Partnership’s sole general partner, UDR has the ability to control all of the day-to-day operations of the Operating Partnership. Separate financial statements and accompanying notes, as well as separate discussions under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are provided for each of UDR and the Operating Partnership.

UDR, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

| | September 30, 2016 (unaudited) | December 31, 2015 (audited) |
|---|--------------------------------------|-----------------------------------|
| ASSETS | | |
| Real estate owned: | | |
| Real estate held for investment | \$ 8,984,369 | \$ 9,053,599 |
| Less: accumulated depreciation | (2,849,902) | (2,646,044) |
| Real estate held for investment, net | 6,134,467 | 6,407,555 |
| Real estate under development (net of accumulated depreciation of \$0 and \$0, respectively) | 294,844 | 124,072 |
| Real estate held for disposition (net of accumulated depreciation of \$91,435 and \$830, respectively) | 51,052 | 11,775 |
| Total real estate owned, net of accumulated depreciation | 6,480,363 | 6,543,402 |
| Cash and cash equivalents | 3,301 | 6,742 |
| Restricted cash | 21,233 | 20,798 |
| Funds held in escrow from Internal Revenue Code Section 1031 exchanges | 87,162 | — |
| Notes receivable, net | 19,694 | 16,694 |
| Investment in and advances to unconsolidated joint ventures, net | 917,941 | 938,906 |
| Other assets | 121,475 | 137,302 |
| Total assets | \$ 7,651,169 | \$ 7,663,844 |
| LIABILITIES AND EQUITY | | |
| Liabilities: | | |
| Secured debt, net | \$ 1,048,993 | \$ 1,376,945 |
| Unsecured debt, net | 2,495,397 | 2,193,850 |
| Real estate taxes payable | 36,030 | 18,786 |
| Accrued interest payable | 28,135 | 29,162 |
| Security deposits and prepaid rent | 37,300 | 36,330 |
| Distributions payable | 86,959 | 80,368 |
| Accounts payable, accrued expenses, and other liabilities | 91,601 | 81,356 |
| Total liabilities | 3,824,415 | 3,816,797 |
| Commitments and contingencies (Note 12) | | |
| Redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership | 900,756 | 946,436 |
| Equity: | | |
| Preferred stock, no par value; 50,000,000 shares authorized: | | |
| 8.00% Series E Cumulative Convertible; 2,796,903 shares issued and outstanding at September 30, 2016 and December 31, 2015 | 46,457 | 46,457 |
| Series F; 16,291,246 and 16,452,496 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively | 1 | 1 |
| Common stock, \$0.01 par value; 350,000,000 shares authorized: | | |
| 267,222,186 and 261,844,521 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively | 2,672 | 2,618 |
| Additional paid-in capital | 4,631,539 | 4,447,816 |

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| | | |
|--|--------------|--------------|
| Distributions in excess of net income | (1,746,617) | (1,584,459) |
| Accumulated other comprehensive income/(loss), net | (11,146) | (12,678) |
| Total stockholders' equity | 2,922,906 | 2,899,755 |
| Noncontrolling interests | 3,092 | 856 |
| Total equity | 2,925,998 | 2,900,611 |
| Total liabilities and equity | \$ 7,651,169 | \$ 7,663,844 |

See accompanying notes to consolidated financial statements.

4

UDR, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| REVENUES: | | | | |
| Rental income | \$240,255 | \$217,765 | \$708,380 | \$637,576 |
| Joint venture management and other fees | 2,997 | 3,653 | 8,473 | 19,457 |
| Total revenues | 243,252 | 221,418 | 716,853 | 657,033 |
| OPERATING EXPENSES: | | | | |
| Property operating and maintenance | 41,852 | 39,478 | 119,872 | 113,922 |
| Real estate taxes and insurance | 28,047 | 24,722 | 86,703 | 76,082 |
| Property management | 6,607 | 5,988 | 19,480 | 17,533 |
| Other operating expenses | 1,636 | 2,639 | 5,280 | 6,174 |
| Real estate depreciation and amortization | 105,802 | 90,568 | 317,078 | 269,689 |
| General and administrative | 11,826 | 15,824 | 36,505 | 41,697 |
| Casualty-related charges/(recoveries), net | 205 | 541 | 1,834 | 2,380 |
| Other depreciation and amortization | 1,526 | 1,457 | 4,565 | 4,780 |
| Total operating expenses | 197,501 | 181,217 | 591,317 | 532,257 |
| Operating income | 45,751 | 40,201 | 125,536 | 124,776 |
| Income/(loss) from unconsolidated entities | 15,285 | 2,691 | 16,289 | 61,277 |
| Interest expense | (31,954) | (30,232) | (93,736) | (88,705) |
| Interest income and other income/(expense), net | 478 | 402 | 1,449 | 1,144 |
| Income/(loss) before income taxes and gain/(loss) on sale of real estate owned | 29,560 | 13,062 | 49,538 | 98,492 |
| Tax benefit/(provision), net | (94) | 633 | 711 | 2,462 |
| Income/(loss) from continuing operations | 29,466 | 13,695 | 50,249 | 100,954 |
| Gain/(loss) on sale of real estate owned, net of tax | — | — | 10,385 | 79,042 |
| Net income/(loss) | 29,466 | 13,695 | 60,634 | 179,996 |
| Net (income)/loss attributable to redeemable noncontrolling interests in the Operating Partnership and DownREIT Partnership | (2,459) | (405) | (4,974) | (6,022) |
| Net (income)/loss attributable to noncontrolling interests | (51) | 1 | (365) | (6) |
| Net income/(loss) attributable to UDR, Inc. | 26,956 | 13,291 | 55,295 | 173,968 |
| Distributions to preferred stockholders — Series E (Convertible) | (929) | (930) | (2,787) | (2,792) |
| Net income/(loss) attributable to common stockholders | \$26,027 | \$12,361 | \$52,508 | \$171,176 |
| Common distributions declared per share | \$0.2950 | \$0.2775 | \$0.8850 | \$0.8325 |
| Income/(loss) per weighted average common share: | | | | |
| Basic | \$0.10 | \$0.05 | \$0.20 | \$0.66 |
| Diluted | \$0.10 | \$0.05 | \$0.20 | \$0.66 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 266,301 | 259,114 | 265,013 | 257,940 |
| Diluted | 268,305 | 261,207 | 266,925 | 260,020 |

See accompanying notes to consolidated financial statements.

UDR, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

(In thousands)

(Unaudited)

| | Three Months Ended September 30, 2016 | | 2015 | | Nine Months Ended September 30, 2016 | | 2015 | |
|--|--|----------|----------|-----------|---|--|------|--|
| Net income/(loss) | \$29,466 | \$13,695 | \$60,634 | \$179,996 | | | | |
| Other comprehensive income/(loss), including portion attributable to noncontrolling interests: | | | | | | | | |
| Other comprehensive income/(loss) - derivative instruments: | | | | | | | | |
| Unrealized holding gain/(loss) | 1,090 | (5,707) | (1,684) | | | | | |